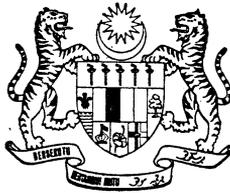


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MALAYSIA

Hari Rabu
5hb Disember, 1973

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OFFICIAL REPORT

DEWAN RAKYAT
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MALAYSIA

DEWAN RAKYAT YANG KETIGA

Penyata Rasmi

PENGGAL YANG KETIGA

Hari Rabu, 5hb Disember, 1973

Mesyuarat dimulakan pada pukul 3.30 petang

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- „ TUAN LIM KIT SIANG (Bandar Melaka).
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- „ TUAN ANDREW MARA ANAK WALTER UNJAH (Betong).
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- „ TUAN HAJI MOHD. ZAIN BIN ABDULLAH (Bachok).
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- „ TUAN MUHAMMAD FAKHRUDDIN BIN HAJI ABDULLAH, J.P. (Pasir Mas Hilir).
- „ TUN DATU HAJI MUSTAPHA BIN DATU HARUN, S.M.N., P.D.K., K.V.O., O.B.E. (Marudu).
- „ TUAN MUSTAPHA BIN HUSSAIN (Seberang Tengah).
- „ TUAN JONATHAN NARWIN ANAK JINGGONG (Lubok Antu).
- „ TAN SRI SYED NASIR BIN ISMAIL, P.M.N., J.M.N., D.P.M.J., P.I.S. (Muar Dalam).
- „ TUAN NG HOE HUN (Larut Selatan).
- „ RAJA NONG CHIK BIN RAJA ISHAK, S.M.S., P.J.K. (Kuala Selangor).
- „ TUAN OTHMAN BIN ABDULLAH, A.M.N. (Perlis Utara).
- „ PENGARAH RAHUN ANAK DEBAK (Serian).
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- „ DR S. SEEVARATNAM, P.J.K. (Seremban Barat).
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- „ TUAN HAJI SHAFIE BIN ABDULLAH, A.M.N., B.C.K. (Baling).
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- „ TUAN SU LIANG YU (Bruas).
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- „ WAN SULAIMAN BIN HAJI IBRAHIM, S.M.K. (Pasir Puteh).
- „ TUAN SULAIMAN BIN HAJI TAIB (Krian Laut).
- „ PENGIRAN TAHIR BIN PENGIRAN PATERA (Kimanis).
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- „ DATUK TAJUDIN BIN ALI, D.P.M.P., P.J.K. (Larut Utara).
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- „ TUAN TAN CHENG BEE, A.M.N., J.P. (Bagan).
- „ TUAN TIAH ENG BEE, P.I.S. (Kluang Utara).
- „ TUAN JAMES STEPHEN TIBOK, A.D.K. (Penampang).
- „ TUAN JOSEPH UNTING ANAK UMANG (Kanowit).
- „ TUAN V. VEERAPPEN (Seberang Selatan).
- „ TUAN YEOH TECK CHYE (Bukit Bintang).
- „ TENGKU ZAID BIN TENGKU AHMAD, D.P.M.K., J.M.K., S.M.K. (Pasir Mas Hulu).

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- Yang Berhormat Menteri Tak Berpotfolio, TUAN MOHAMED KHIR JOHARI (Kedah Tengah).
- „ Menteri Hal Ehwal Sarawak, TAN SRI TEMENGGONG JUGAH ANAK BARIENG, P.M.N., P.D.K., P.N.B.S. (Ulu Rajang).
- „ Menteri Kerajaan Tempatan dan Perumahan, DATUK ONG KEE HUI, P.N.B.S. (Bandar Kuching).
- „ Menteri Teknologi, Penyelidikan dan Penyelarasan Kampung-kampung Baru, DATUK LEE SAN CHOON, S.P.M.J., K.M.N. (Segamat Selatan).
- „ Menteri Tugas-tugas Khas, Y. M. TENGGU AHMAD RITHAUDEEN AL-HAJ BIN TENGGU ISMAIL, P.M.K. (Kota Bharu Hilir).
- „ Timbalan Menteri Perdagangan dan Perindustrian, DATUK MUSA HITAM, S.P.M.J. (Segamat Utara).
- „ Timbalan Menteri Perusahaan Utama, TUAN HAJI YUSOF BIN HAJI ABDULLAH *alias* HAJI YUSOF RAWA (Kota Star Selatan).
- „ DATUK HAJI ABDUL-RAHMAN BIN YA'KUB, P.N.B.S. (Payang).
- „ TUAN HAJI ABDUL RASHID BIN HAJI JAIS, A.D.K. (Sabah Selatan).
- „ PENGIRAN AHMAD BIN PENGIRAN INDAR (Kinabatangan).
- „ TUAN AJAD BIN O. T. UYONG (Labuk-Sugut).
- „ DR AWANG BIN HASSAN, S.M.J. (Muar Selatan).
- „ CHEGU BAUDI BIN UNGGUT (Bandau).
- „ TUAN GOH HOCK GUAN (Bungsar).
- „ DR LIM CHONG EU (Tanjong).
- „ TUAN LOH JEE MEE (Batang Padang).
- „ TUAN MOHAMED ARIF BIN SALLEH, A.D.K. (Sabah Dalam).
- „ TUAN HAJI MOHD. CHIK JOHARI ONDU MAJAKIL (Labuan-Beaufort).
- „ TUAN MOHD. TAHIR BIN ABDUL MAJID, S.M.S., P.J.K. (Kuala Langat).
- „ TUAN HAJI MOHAMED YUSOF BIN MAHMUD, A.M.N. (Temerloh).
- „ DATUK PANG TET TSHUNG, P.D.K. (Kota Kinabalu).
- „ TUAN TING MING KIONG (Bintulu).
- „ DATUK JAMES WONG KIM MIN, P.N.B.S. (Miri-Subis).
- „ TUAN YEH PAO TZU, A.M.N. (Tawau).
- „ DATUK STEPHEN YONG KUET TZE, P.N.B.S. (Padawan).

YANG HADIR BERSAMA :

- Yang Berhormat Peguam Negara, TAN SRI ABDUL KADIR BIN YUSOF, P.M.N., S.P.M.J., P.J.K. (Dilantik).
- „ Menteri Kebajikan Am, PUAN AISHAH BINTI HAJI ABDUL GHANI, J.M.N. (Dilantik).
- „ Timbalan Menteri Perhubungan, TUAN WONG SENG CHOW.

DEWAN RAKYAT

PEGAWAI-PEGAWAI KANAN

Setiausaha Dewan Rakyat, Datuk Azizul Rahman bin Abdul Aziz.

Timbalan Setiausaha, A. Hasmuni bin Haji Hussein.

Penolong Setiausaha, Mohd. Salleh bin Abu Bakar.

Pemangku Penolong Setiausaha, Ghazali bin Haji Abd. Hamid.

BAHAGIAN PENYATA RASMI

Penyunting, Yahya Manap.

Penolong Penyunting, P. B. Menon.

Penolong Penyunting, Osman bin Sidik.

Pemberita-pemberita:

N. Ramaswamy.

Louis Yeow Sim Ngoh.

Abdul Rahman bin Haji Abu Samah.

Rani bin Rahim.

Suhor bin Husin.

Ng Cheng Kuai.

Jamaludin bin Haji Ali.

Amran bin Ahmad.

Mohd. Salleh bin Mohd. Yusof.

Margaret Chye Kim Lian.

Quah Mei Lan.

Puan Kong Yooi Thong.

BENTARA MESYUARAT

Mejar Shariff bin Md. Saad.

DOA

(Tuan Yang di-Pertua *mempengerusikan Mesyuarat*)

RANG UNDANG-UNDANG

RANG UNDANG-UNDANG PERBEKALAN, 1974

Bacaan Kali Yang Kedua

Menteri Kewangan (Tun Tan Siew Sin): Tuan Yang di-Pertua, saya mohon mencadangkan supaya satu Rang Undang-undang bernama "Suatu Akta bagi menggunakan sejumlah wang daripada Kumpulan-wang disatukan untuk perkhidmatan bagi tahun 1974 dan bagi memperuntukkan wang itu dan lain-lain wang sebagaimana yang telah dibenar dikeluarkan untuk perkhidmatan bagi tahun itu" dibaca bagi kali yang keduanya, dan saya minta izin berucap dalam bahasa Inggeris.

(Dengan izin) As I am not able to speak for too long a period without feeling some discomfort, I hope, Sir, that you will allow me to read only the most important parts of my speech. This will highlight its main points. In other words, I will not deliver my whole speech. The full text will, however, as usual, be made available to Honourable Members at the end of this sitting and will be regarded as having been delivered for the purposes of record.

The year 1973 has been one of our most eventful years in so far as economics and finance are concerned. I would, therefore, like to highlight some of these major developments before I give you a more detailed review of the performance and prospects of the economy. The Malaysian economy recovered dramatically from the slowdown in economic growth in 1971 and 1972. The gross national product (G.N.P.) is estimated to have risen by 20% in 1973 at current prices, and from our latest estimates could even reach 22%. This remarkable performance reflects not only the upswing in the demand and prices for our export commodities, but also the resilience and productive capacity of the Malaysian economy under sound management. The Government has played an increasingly important role in achieving this high rate of economic growth. The fact that as a result of the Mid-Term Review of the

Second Malaysia Plan we expect to spend about \$8,800 million against an initial target of \$6,000 million, an increase of 47%, indicates in no uncertain terms that the Government is playing a positive and indeed a dynamic role in this field. It is estimated that this large increase in Government spending will raise the share of Government spending from 33% of the gross domestic product (G.D.P.) in 1971 to 36% in 1975. This is a high rate of growth by any standard. It is difficult for the Government to do more, but at the same time we must be careful to ensure that we do not fuel the fires of inflation by spending too much at this time. I shall come to this point again later.

Another eventful though unwelcome development has been the increase in prices. Price levels in Malaysia had for a long time been very stable. The cost of living, for instance, grew by less than 1.0% per annum during the two decades up to 1972, when it went up to 3.2%. This year the cost of living index is likely to be of the order of 10% which is far too high. The unfortunate thing, however, is that most of this increase comes from imported inflation. This is not an excuse, it is an indisputable fact. I shall amplify on this point later on in my address. What is even more difficult to understand is that goods from countries whose currencies have depreciated substantially against the Malaysian dollar have only been obtainable at prices which do not reflect these substantial parity changes. There is obviously something seriously wrong somewhere and it is the firm intention of the Government to look into this matter closely because we are convinced that the key to a solution of the problem of imported inflation lies in correcting this obvious anomaly.

The momentous monetary decisions taken on 8th May last established yet another milestone in our economic and financial evolution. The liberalisation of our exchange regulations, the termination of the currency interchangeability agreements with Singapore and the establishment of our own Stock Exchange have indeed strengthened our economic and financial foundation and potential.

The international monetary crises that recurred in 1973 caused confusion in world money markets but the Malaysian dollar has emerged even stronger, especially after it was allowed to float on 21st June last. There

are not many currencies in the world that have floated upwards! Today our currency is about 28% stronger than the United States dollar and 50% stronger than the British pound as compared to the rates prevailing before independence 16 years ago.

In line with our growing economic well-being and self-reliance, steps were taken to establish a separate and independent rubber market on 20th August. Since then the importance of the Malaysian rubber market has been increasing, consistent with Malaysia's status as the world's largest natural rubber producer.

All these major events have made 1973 an exciting year for Malaysia. In some of these areas, such as the floatation of the Malaysian dollar and the management of price increases, our experience is limited. However, given the remarkable recovery and basic strength of the Malaysian economy, the current year has given much cause for satisfaction. We should now be even more confident that we can maintain it in the future.

The International Economic and Monetary Situation

In 1973 the major industrial economies recovered remarkably in both output and employment from their slow economic pace of 1971 and the first half of 1972. This year the major countries belonging to the Organisation for Economic Co-operation and Development (O.E.C.D.) are expected to record an almost unprecedented 7% growth in real G.N.P. as compared to 3.3% in 1971 and 5.8% in 1972. The upswing began in the latter half of 1972 and accelerated throughout this year. However, this rapid rate of expansion, which was brought about by economic policies aimed at removing the earlier economic slack, is beginning to slow down as a result of capacity constraints, counter inflationary policies, and now the oil crisis.

All the major industrial countries have been experiencing high rates of inflation as well. In 1973 the OECD countries are estimated to have had an average inflation rate of over 6½%. Japan alone is estimated to double its rate to almost 11% from 1972. Among these countries, Japan, the United States and the United Kingdom account for 40% of our imports. The economic health of these countries has therefore a

major influence on our own economy since we are such an open economy with an average of about 46% of our GNP originating from the export sector. In 1973, exports accounted for 48% of our GNP.

In so far as the international monetary situation is concerned, I can do no better than to quote from the statement which I made at the first working meeting of the Committee of Twenty in Washington in March this year:

“Let not posterity say that in this hour of trial the wise men of the developed world could not rise to the challenge and grasp the opportunity which such a challenge represents, and thereby open the way to wider horizons, and a higher level of prosperity for all countries, whether rich or poor, developed or less developed. What is needed now and badly needed too, is the political will and the political courage to do what is right and only bold and imaginative measures will enable us to overcome the obstacles in our path and pave the way to an era of economic fulfilment, social justice and greater prosperity for all.”

When I made this statement, a number of Finance Ministers of the developed world felt that I was too pessimistic and chided me accordingly. What took place in Nairobi in September confirmed my worst fears. This is significant when one remembers that after the July meeting in Washington, Finance Ministers of the developed world were making the most euphoric statements and practically predicted that the meeting in Nairobi would achieve some worthwhile results. It is important that this background of events should be recalled so that we can assess likely future progress in a more realistic light. The next meeting of the Committee has been scheduled for 17th and 18th January, 1974 in Rome and the world has been informed that the Committee will conclude its work by 31st July next year. At the moment, however, there are no signs that the major industrial countries are prepared to compromise in order to narrow their differences and so it is really not possible to even hazard a guess as to what the future holds in store, in so far as the international monetary situation is concerned. Just as the high growth and inflation rates in these countries had a direct impact on our economic recovery and price

increases this year, the anticipated slowdown in the rate of economic expansion and inflation in the major industrial economies are expected to influence the Malaysian economy in 1974. It is unlikely, however, that the extraordinary boom conditions which exist this year will continue next year, nor that our prices will continue to increase at this year's rate of 10%.

Malaysia's Economic Performance in 1973 External Demand

Last year the Treasury predicted an expansion in the economy at a time when growth in the economy was sluggish, but many quite understandably did not take me seriously as they expected the economic situation to decline further. However, actual results have exceeded even this moderately optimistic assessment. The GNP this year is expected to increase at the unprecedented rate of more than 20% at current prices or over 8% in real terms. This is indeed a boom. The highest growth rate before this was that experienced during the boom in 1955 when the economy grew by 27%.

What is remarkable is that this outstanding economic performance has been achieved in conjunction with a significant strengthening of the Malaysian dollar. Such an achievement would be considered significant even in the industrial world. Indeed, 1973 must be an outstanding year for economic and financial achievement by any standards.

Last year in line with the Treasury's counter cyclical policy of economic and financial management, the public sector or Government spending provided the thrust for economic growth. To put it in layman's language, this means that the Government tries to reduce expenditure at a time of boom while it increases its expenditure at a time of recession. The basic idea, of course, is that during a boom there is too much money around and the Government would make matters worse by pouring more into the economy, whereas at a time of recession there is too little money around, and the Government should stimulate the economy by putting more money into it. This is one of the main planks of our financial policy and it is clearly a sensible one. However, this year it has been the private sector, and principally the export sector that has by far

enabled the economy to perform so well. Exports this year are estimated to increase by no less than 42%. This is particularly impressive when compared to the negative growth rate of 2.5% for both 1971 and 1972. This factor alone largely explains the comparatively slow rates of economic growth in the previous two years.

Both private consumption and investment provided the other boost to economic growth this year by expanding at 14% and 20% respectively. Thus the public sector was allowed to continue its momentum of growth but at a much slower pace than in 1972, since the economy was being adequately supported by the private and export sectors.

The most significant contribution to export earnings and indeed the whole GNP came from rubber, which accounted for 30% of our export earnings and 15% of the GDP. Rubber prices shot up from an average of 43 cents per lb last year to an estimated average of about 66 cents per lb this year, although the price of RSS No. 1 is estimated at about 71 cents per lb. Partly in response to these high prices, which were the highest in 20 years, rubber exports, especially from the smallholders, are expected to increase significantly by over 20% to reach nearly 1.5 million metric tons. It is also significant to note that about 25% of these exports were in the form of Standard Malaysian Rubber (SMR) as compared to only 7% just 5 years ago. The high demand from the industrial countries and particularly from China and the Soviet Union helped to boost demand. What is more important, however, is the future of natural rubber. As is generally known, our only competitor, namely, synthetic rubber, is based on raw materials from oil. The growing energy crisis will clearly make such materials not only more expensive, it could even make them scarce. Under such circumstances, it is likely that the present level of prices can be maintained for some-time more. Even this level is not high compared to pre-war levels and compared to price rises in other primary commodities.

For instance, during this year the prices of copper, food grains, soyabeans and cocoa all rose steeply. The prices for cocoa and soyabeans alone increased from a price index base of 100 points at the beginning of

this year to 250 and over 300 points during the middle of this year as compared to the increase for the rubber price index to only 200 points. It is clear therefore that rubber was not the only primary commodity that registered sharp price increases. Other primary commodities did even better. Rubber prices therefore could still go up higher than they have, despite their already dramatic recovery.

I am sure that many do not know that timber has surpassed tin as the second largest export earner this year. This was due to the upsurge in demand for Malaysian timber in the United States of America, Japan and Britain whose construction industries experienced boom conditions. The prices of saw logs and sawn timber are estimated to average about 47% and 53% respectively above 1972 prices. These high prices enabled total timber production and export earnings to increase substantially. Export earnings for both saw logs and sawn timber are expected to reach about \$1,530 million or 77% over that of last year.

The timber industry has done exceptionally well and continues to provide more employment opportunities through greater domestic processing. The ban on the export of 10 species of saw logs from Peninsular Malaysia in November last year is estimated to reduce the export of saw logs by about 57% but is expected to boost sawn timber exports by about 50% to reach the record figure of about 2.1 million metric tons this year. This shows that we can and should do more to expand our domestic processing capacity not only in timber but in most of our agricultural products.

In doing so, however, we must ensure that as in the case of the rubber industry, we strive for the most efficient techniques of production and processing. It is unfortunate that in this respect the timber industry has not shown enough imagination and foresight. I am referring to the low recovery rate of only 55% as compared to a 100% recovery rate in Japan and 80% in Pakistan. Surely it is not beyond the ability of the industry to show a greater sense of responsibility in the exploitation of our forests. I would, therefore, urge it to revise its techniques and improve on this inexcusably low recovery rate. If necessary, the industry should send its representatives to countries like Japan and

Pakistan and learn from them in this field. At the same time, I trust that the degree of processing can be stepped up, in some cases substantially, as I understand that 88% of our sawn timber is still exported with minimal processing.

Tin prices have been higher this year than in 1972 but exports and export earnings have declined. The lower exports were due to the lower output of 73,000 tons this year, compared to 76,000 tons last year, as a result of declining yields from depleted mining areas. The decline in tin imports for smelting and re-export also contributed to the decline in export earnings which are estimated to realise about \$890 million this year as compared to \$924 million last year.

It is interesting to note that Malaysia provides 64% of the world's palm oil exports. This year, palm oil exports rose strongly in response to expanding world demand for high protein feedstuffs. This demand was strengthened by the shortage of oil and fat substitutes and the recent U.S. ban on the export of soyabeans which are also a substitute. This year palm oil registered its highest prices in 15 years while exports are estimated to grow by about 17% to 813,000 metric tons with a value of \$464 million in foreign exchange. These export earnings could be increased more significantly if more domestic processing is undertaken. In my 1971 Budget speech I urged palm oil producers to process their product which was then being exported almost entirely in crude form. Since then some processing has taken place and today about 4% of our crude palm oil is refined before export. However, it will be agreed that much more can be done to expand our refining capacity. Indeed, we should go further and manufacture palm oil products for export overseas.

Petroleum exports declined this year because of growing domestic demand to meet our own needs. Crude oil exports declined as a result of the increase in domestic refining capacity which however is a welcome development since this is all part of the process of diversification and industrialisation. The increase in the prices for petroleum and petroleum products helped to compensate for this decline in petroleum exports. Thus, foreign exchange receipts from crude petroleum exports increased by 8% over 1972 to reach \$184 million while partly refined oil and

petroleum products together are expected to earn about \$157 million. Rising prices and increased processing of crude petroleum will enhance the role of petroleum, not only in terms of its foreign exchange potential but as an important component of our industrialisation programme, given the difficult oil supply situation which is likely to grow worse before it becomes better.

Another area of impressive expansion is the export manufacturing sector. Manufactured exports excluding tin metal have been steadily growing and are estimated to reach \$730 million, an increase of 46% over 1972. A most significant expansion of 64% is expected from the exports of processed timber, particularly veneer sheet and plain plywood. Malaysia's range of manufactured exports has been expanding and major increases are envisaged in the export of textiles, clothing, lime clinkers and fabricated building materials. This is most encouraging for, as I said in my last Budget speech, it is imperative that our traders should switch to manufacturing as soon as possible before it is too late.

When examining the external demand for our goods we normally think in terms of our primary commodities and recently our manufactured goods. However, it is well to remember that there is a large potential for the export of services. The establishment of our national air and shipping lines has produced solid gains in this field. It is estimated, for instance, that the export of services which amounted to \$562 million in 1972 will grow by 21% this year. This striking increase is largely due to the expansion of the Malaysian Airline System (MAS) and the Malaysian International Shipping Corporation (MISC). Though the latter is a company in which the Government has only a minority interest, yet it has been given substantial assistance to enable it to expand rapidly.

Tourism too has grown rapidly and at a conservative estimate is expected to bring in \$63 million. Estimated visitor arrivals to Peninsular Malaysia increased substantially to 840,000 persons which is a 20% increase over 1972 arrivals. By next year, arrivals are expected for the first time to exceed the 1 million mark, a figure that has long been reached by neighbouring countries like Singapore and Thailand. Arrivals by air and

sea alone (an indicator for measuring the arrival of foreign tourists) are likely to total 363,000 persons in 1973, an increase of 26% over 1972.

INTERNAL DEMAND

Public Sector

Public sector spending which is the expenditure of the Federal Government, State Governments and public authorities, increased at a slower rate than last year. This is as it should be since during a boom year it would have been undesirable for the Government to step up spending as this would only aggravate our No. 1 economic problem, namely, the problem of inflation. In spite of this, the financing target of the Second Malaysia Plan has been raised by 47% from \$6,000 million to \$8,800 million and we cannot, therefore, be accused of being unwilling to spend where it is necessary to do so. In the last analysis, however, it is the quality and not the quantity of our expenditure that really matters. In short, we should get value for our money. There is no point in spending more in order to achieve a particular target, especially when the additional expenditure is the direct result of higher costs and prices. Such additional expenditure merely means that we are paying more for the same thing, but we are not getting more for our expenditure. Spending of this nature does not assist development, it only contributes to further inflation and I am sure that the House will agree with me that it does not want the Government to add fuel to the fires of inflation.

Private Sector

In terms of domestic demand it is the private sector that has provided the strong boost to economic growth this year. Last year the private sector was very sluggish but it has gathered momentum in response to both the current export boom and the Federal Government's lead last year in both investment and consumption. Thus for 1973 it is estimated that private sector expenditures on consumption and investment will together attain a 15% growth at current prices as compared to the slow pace of 4% last year.

Private consumption is estimated to increase by 14% at current prices as compared to 5.7% in 1972. Despite the increase in consumer prices, it is still a

noteworthy performance since in real terms, private consumption is expected to rise by about 7% this year as compared to the slow growth rates of 3.8% and 2.4% in 1971 and 1972 respectively. Much of this increase was shared by the lower income groups in the agricultural sector, particularly rubber smallholders and rice cultivators, whose incomes rose as a result of the export boom.

Private investment, however, has made the most striking recovery from 1972 when it actually declined by 11%! This year, private investment is estimated to grow by over 20% at current prices. Expanded private investment implies increased imports of machinery and intermediate goods. With strong and persistent inflation in the industrial countries, our imports from these countries have cost much more, despite the fact that the Malaysian dollar has appreciated by no less than 15% on a trade weighted basis, against the currencies of all our major trading partners. Thus real private investment this year is estimated to grow by about 5% which is still a significant increase compared to the decline in 1972. This spurt in private investment as a result of the boom has come much earlier than in the past. The thrust has come mainly from the construction and manufacturing industries while investment in perennial crops has remained at 1972 levels despite the upswing in agricultural exports.

The main indicator of this increasing investment activity is the import of investment goods which rose by 16% in the first 9 months of this year. Imports of metal manufactures increased even more by 46% while iron and steel imports grew significantly by 67%, particularly after the Government exempted them from import duties in April this year. All these indicators point to buoyant private investment this year which is expected to continue even more strongly next year.

Consumer Prices

I stated earlier that imported inflation played a significant role in causing consumer prices to rise by about 10% this year. This is evidenced by the fact that our *import price index* increased by 12% in 1972 and by about another 14% this year, and commodity imports account for 35% of our G.N.P. amounting to \$5,490 million. It is obvious that against increases of this magnitude there

is very little that we can do. There is, therefore, no doubt that our domestic inflation has been largely brought about as a result of the highly inflated prices which we are paying for our imported goods.

Domestically, aggregate demand has increased as a result of higher private sector borrowing, the strong export boom and the increases in Government expenditure, particularly in the past. There are also problems of supply shortages which are made worse by malpractices such as profiteering, hoarding and speculation. Some manufacturers appear to have taken advantage of protective tariffs to develop monopolistic practices and raise prices to levels which are higher or the same as that of imported goods which are subject to high import duties.

The Government has taken a number of steps during the year to counter the problem of rising prices. The most important measure, in terms of its overall impact, was clearly the floating of the Malaysian ringgit in June 1973 which was intended to minimise the impact of exchange rate revaluations and inflation abroad. The Government lifted import controls on about 61 items with effect from 16th August, 1973. In addition to this, the Government is also subsidising the consumption of imported rice at 50 cents per gantang. This subsidy is estimated to cost \$13.8 million. On 20th October, the Government implemented a package programme of relief measures which included the payment of temporary special relief allowances to lower income civil servants, reduced quotas and import duties on essential goods and commodities, and enforced more vigorously the provisions of the Control of Supplies Act, 1961.

The Government can, however, only alleviate the problem as we must recognise that price inflation is a new phenomenon that is here to stay for some time more. We will introduce other measures as and when necessary, but the public too could assist the Government by curbing their spending when prices are too high. Inflation is the result of too much money chasing too few goods and hence the obvious remedy for this disease is less spending, not more. What applies to the Government also applies to the public. In fact, in this field the public can do even more than the Government. In this connection, too, I would like to

disabuse the public of the view that one of the remedies for inflation is to decrease taxation. This will only make matters worse, not better, because reduction of taxation will place more funds in circulation and will therefore only add to the problem.

Money Supply

Money supply in 1973 is estimated to have increased by about 35% compared to 28.1% in 1972. Considering that the economy expanded by 7.5% last year and about 20% this year, the faster growth in money supply has given us some cause for concern. The main factor influencing the growth of money supply in 1973 was the increased spending of the private sector. This expansionary impact on money supply by the private sector was a significant change from the contractionary role it played in 1972, reflecting the current recovery in private sector activity and the favourable business climate. The external sector also exerted an expansionary impact on money supply following a substantial net inflow of foreign exchange into the country as a result of higher prices for Malaysia's primary export commodities. In contrast to the rapid growth in money supply created by the increasing activity of the private and external sectors, the public sector influence on money supply was insignificant. This in fact reflected the Government's anticyclical posture resulting from the current boom. In this connection we also modified our monetary policy by making it more restrictive, compared to the relaxed approach in 1972, so as to reduce the pressure on rising prices. This was done by raising the lending and borrowing rates as well as the deposit rates of commercial banks, increasing their reserve and liquidity ratios, and mopping up surplus funds through two Government loans of \$903 million raised so far this year.

Malaysian Stock Exchange

In February this year share prices rose to their highest levels in history. Shortly thereafter, they came tumbling down as a result of various factors which we need not go into here. On 8th May last I announced the eventual splitting of the Stock Exchange of Malaysia and Singapore, so that in future we will have our own Stock Exchange, namely, the Kuala Lumpur Stock Exchange.

Share values have not risen to the levels reached in February this year but we must remember that those levels were not realistic and could not be maintained forever. The point I would like to make, however, is that members of the public should not regard the Stock Exchange as another casino. It is true that you can get rich quickly, but that means that you can also get poor quickly. The Stock Exchange should be used as a means of making sound long term investments. Any departure from this basic principle can only result in badly burnt fingers eventually.

By November 1973, nine new stock-broking firms were established during the year bringing the total to 30. About 260 companies are already listed with the Kuala Lumpur Stock Exchange, 154 of which are incorporated in Malaysia. It is anticipated that more companies will be listed on the Kuala Lumpur Stock Exchange as there has been a growing realisation by companies of the advantages of getting a "listing" on our Exchange in order to mobilise funds more effectively.

I hope that the day will not be far off when our Stock Exchange will not only list shares of Malaysian and Singapore companies, I hope that the time will come when it will also list shares of Hong Kong, Japanese, Australian and even European and American companies. This is perfectly feasible provided that the people running the Exchange have the vision and the courage to think big and to look ahead far enough. Honourable Members are also aware that we intend to develop our own rubber market and here again, I hope the trade will have the foresight to think ahead. Government, for its part, will do everything it can to provide the necessary infrastructure. I have asked the Telecommunications Department to expedite the installation of adequate telex facilities so that every intending subscriber can get such facilities without delay. It is obvious that without such facilities it is futile to think of developing our money, rubber or any other market up to international standard. Furthermore, I have asked Bank Negara to inform the commercial banks that unless they take adequate steps, to put suitably qualified foreign exchange dealers on their payroll and to develop their capabilities within a reasonable period of time, it is my intention

to take firm action against them. These two facilities are absolutely necessary for our purpose and hence we shall leave no stone unturned to provide them as soon as possible.

Production

Rubber production is estimated to have increased by 14% with smallholder production increasing by no less than 30%.

The production of padi in 1973 is estimated to increase to 2 million metric tons, an increase of 8% over 1972. As a result of the world shortage of rice this year, the price of rice in the international market for the first time in 5 years exceeded our domestic price. To avoid further dependence on imports of rice, the Government has decided to revise the previous policy of 90% self-sufficiency to 100%.

Petroleum whose production has increased sharply since 1970 is estimated to exceed 36 million US barrels in 1973 or 99,000 barrels a day. This exceeds our domestic needs of about 84,000 barrels a day. Furthermore, oil production is expected to increase even more. At present, there are already 9 companies engaged in looking for new finds and some promising discoveries, especially off the East Coast and Sabah have been made, while commercial production is expected to begin soon. This year alone 5 new oil strikes and 2 natural gas strikes were made and tests indicate that their output is of a high quality.

We will therefore not only have sufficient oil for ourselves despite the oil crisis but we could become an important producer of petroleum that could generate much more foreign exchange and revenue in the future.

We are now moving into a wide range of oil production activities, including the greater utilisation of its by products for manufacturing purposes. Carbon black which is used for a large variety of industrial purposes will soon be produced at Port Dickson. A \$2,000 million liquefied natural gas (L.N.G.) project is now being planned at Bintulu in Sarawak. Another company is developing a terminal on Labuan that will be able to handle 30,000 barrels a day initially and eventually 150,000 barrels a day by the end of the decade. Petroleum is

currently providing \$28 million in royalty and this is expected to grow substantially.

Manufacturing

The manufacturing sector continued to be the growth leader of the economy in 1973. With the estimated value of manufacturing output increasing by 16% this year, the manufacturing sector is estimated to contribute 16.6% of the G.D.P. compared to 15.4% in 1972.

The leading industries in 1973 were those involved in the assembly of transport equipment, metal products, textiles, paper products, beverages, basic metals for construction purposes, wood products, food and off estate processing, i.e. factories processing agricultural products like rubber, palm oil, copra, coconut oil, which are not located on the estate itself.

A major development in the manufacturing sector this year is the increasing emphasis being put on export-orientated industries, which no doubt have been encouraged by the opening of free trade zones. This enables manufacturing companies to import free of duty machinery, raw materials and component parts, and then to export finished goods with the minimum of customs formalities. Further trade zones are likely to be opened in Pulau Jerejak, Penang, Ulu Klang, Tanjung Keling in Malacca and Pasir Gudang and Tanjung Agas in Johore.

Employment

Unemployment is expected to be 7.3% of the labour force in 1973 and this is an improvement on the 7.5% recorded in 1970. The economic boom resulted in the creation of new jobs in 1973. This figure for unemployment however would be less if we consider the usual structural unemployment that exists here and in most other countries as well. This is because a high proportion of those classified as unemployed are either unemployable for a variety of reasons or are too choosy about the jobs they are prepared to take on. I shall come to this point again later.

The strong performance of the economy has generated more jobs, especially for building construction workers, the transport industry and general labourers. The manufacturing sector however continued to be the

main source of new vacancies. It is estimated that this sector provided 24,000 new jobs in 1973 representing an increase of 8.9% compared to 1972. By the end of this year, employment in the manufacturing sector is estimated to reach 294,000. The electronics industry contributed 12,000 out of the estimated 24,000 new jobs generated in 1973. An encouraging development is that a significant number of the new jobs created were in the rural areas of Perlis, Kedah, Malacca, Trengganu and Pahang reflecting the progress made in the dispersal of industries. Job creation in the agricultural sector lies mainly in land development schemes and this represented 23% of total new jobs created this year. Because of the boom in building construction activities, employment in this industry increased by about 5% in 1973, which included the return of Malaysian workers from Singapore. Despite this there is still a labour shortage in this industry in Malaysia.

The unemployment structure in 1973 indicates a high proportion of jobless youth. Two-thirds of the unemployed are below 24 years old. Although it is accepted that many of those in this category are unable to obtain employment as a result of the lack of the necessary qualifications, or lack of experience—and we are trying to solve this problem by encouraging the provision of more vocational training facilities and so on—some of those unemployed can obtain jobs if they are prepared to be more mobile. If I may say so, life in this country is too easy as one does not have to strive too much to keep body and soul together, provided one does not ask for too much. While this may be allright for a climate such as ours, it does make it more difficult for the Government to reduce unemployment substantially even with the best will in the world, if the people concerned are not prepared to make the extra effort to help themselves.

Net External Reserves

Malaysia's net external reserves as at the end of October 1973 amounted to \$3,253 million and were \$327 million higher than at the end of 1972. Our reserves are expected to continue to rise further to well over \$3,430 million by the end of this year representing a rise of more than 17% over last year. This substantial increase, estimated at over \$500 million, as compared to only

\$152 million in 1972, was strongly influenced by favourable commodity prices. This level of reserves would be sufficient to finance more than 8 months of retained imports at the 1973 level.

Federal Government Finances

Let me first refer to the actual outturn in 1972 and the results anticipated in 1973 before dealing with the 1974 Budget itself.

Government Finances, 1972

The current account of the 1972 Budget closed with a deficit of \$148 million instead of the deficit of \$49 million anticipated in my Budget speech last year. This is mainly due to the payment of \$275 million for salary increases.

Actual revenue outturn in 1972 amounted to \$2,919 million, and exceeded the revised estimates by \$126 million or about 5%. This better than expected result arose from the various special items credited to the Consolidated Revenue Account, including \$184.8 million of the residual assets of the Board of Commissioners of Currency, Malaya and British Borneo.

Ordinary budget expenditure amounted to \$3,126 million or 8% higher than the 1972 revised estimate of \$2,897 million. This was largely due to increases in expenditure following the salary revisions made under the Aziz Report for teachers which cost \$158 million and the Sheikh Abdullah Report for the Armed Forces estimated at \$117 million. With direct development expenditure and net lending reaching \$1,223 million, which was \$146 million more than that envisaged in my last Budget speech, the overall deficit thus amounted to \$1,371 million. This deficit was financed by net domestic borrowing amounting to \$826 million, net foreign borrowing of \$306 million and special receipts of \$66 million, resulting in a decrease of \$173 million in our realisable assets.

Estimated Financial Outturn for 1973

Ordinary budget revenue this year is now estimated to reach \$3,302 million, i.e. \$363 million or 12% more than envisaged in the original budget estimate. This represents a significant increase of 13% over 1972 revenue mainly due to the current boom and higher export commodity prices in 1973.

Revenue from export duties alone is estimated to reach \$371 million, i.e. \$121 million or 48% higher than the original budget estimate. The main increase is expected from rubber duty, which is estimated to exceed the budget estimate by \$129 million following the high prices for rubber this year estimated to average 157 cents per kilo for RSS No. 1. The increased revenue from rubber includes an estimated \$40 million collected as export surcharge which was not envisaged in the 1973 Budget, and has therefore been most welcome, particularly since it has served to siphon off some of the excess liquidity.

Import duties are estimated to increase by 12% from the original estimate of \$507 million. Major increases came from the duties on petrol, heavy and fuel oils and textiles as a result of the increased imports of these items due to the faster pace of economic growth. Sales tax is also expected to perform impressively with an increase of \$40 million to \$210 million or 24% over the budget estimate and even more significantly, 83% over the 1972 collection.

Another major increase in revenue is expected to come from income tax which would be about \$100 million or 13% higher than the budget estimate. This would be an increase of 15% over the 1972 collection and is the result of the collection of arrears of income tax and also arose from improved collection machinery and the higher taxes collected from salary arrears given to teachers and the Armed Forces in 1972.

The ordinary budget expenditure appropriation of \$3,155 million for 1973 is expected to increase by \$190 million or 6% to reach a total of \$3,345 million. The revised estimates take into account the first supplement of \$38 million passed by this House earlier and further supplements needed to finance salary revisions under the Aziz Report for Sarawak and Sabah and the temporary special allowances paid to Government employees earning \$500 per month and below implemented in October this year. Other increases included higher expenditures for education and health, grants to States and debt servicing.

The Budget's current account for this year is therefore expected to register a

surplus of about \$19 million compared to the deficit of \$154 million originally envisaged.

The Development Budget provision in 1973, including the first supplement of \$211 million, came to \$1,698 million, but actual expenditure is expected to total \$1,295 million, or 4% more than in 1972. In my last Budget address, I mentioned that certain defence items which used to appear in the development account would be regarded as operating expenditure from 1973 onwards. If these defence items were added back to the 1973 development estimates then the comparable increase over 1972 would be 17%. Loan disbursements continued at a high rate reaching a level of \$450 million, and included loans of \$85 million to the Federal Land Development Authority (FELDA), \$28 million to M.I.S.C., \$41 million to the Urban Development Authority (UDA), \$79 million to the Telecommunications Department and \$40 million to the various State Economic Development Corporations.

The overall deficit for 1973 is thus estimated at \$1,246 million which is \$9 million less than the figure anticipated in the last Budget. The financing of this deficit will be met from domestic and foreign borrowing and special receipts, resulting in a decrease in our realisable assets of \$126 million.

The 1974 Budget

I now come to the 1974 Budget. It is of course obvious that the Budget cannot simply be a statement of revenue and expenditure. It is an important instrument for giving effect to national goals and aspirations on economic and social development. At the same time, we cannot afford to depart from our basic policy of maintaining financial stability at all times as without such stability, it will not be possible to achieve rapid economic expansion, and greater social development must be based on an adequate economic foundation.

Given this framework, the total Budget provision for 1974, tabled as Command Paper No. 32 of 1973, has been fixed at \$5,424 million, of which \$3,530 million is for operating expenditure, and \$1,894 million for development expenditure. The

latter includes \$60 million for the Contingencies Reserves and is consistent with the \$8,800 million target of actual public sector expenditure for the Second Malaysia Plan. The total expenditure for 1974 is 17% above the 1973 Budget.

The operating expenditure allocation, however, does not include the estimate for the payment of special relief allowances for lower income Government employees because the decision on this concession was taken only recently. The amount required for this purpose, which is estimated at about \$75 million per annum, will thus be met by supplementary estimates during the year.

I shall broadly outline our expenditure proposals for 1974 and additional information will, as appropriate, be provided by the Ministers responsible for their respective heads of expenditure.

THE BUDGET'S CURRENT ACCOUNT

Ordinary Expenditure

Ordinary budget expenditure for 1974 is estimated at \$3,530 million which is \$375 million or 12% more than the 1973 Budget. In comparison with the estimated outturn for 1973, the 1974 current account allocation provides for an increase of 5½% or \$185 million. I would like to review briefly some of the major expenditures approved for 1974.

Significant increases have been provided for social services such as education, health, housing, labour and welfare and culture, youth and sports. The allocation of \$1,206 million for the social sector is an increase of \$199 million or 20% over the 1973 Budget estimate. It constitutes 34% of the total provision and is the largest sector of expenditure.

Education of our youth continues to be of particular concern to the Government in that it constitutes 24% of the 1974 Budget. Education has been given the largest vote under social services amounting to \$851 million which is \$148 million or 21% more than the 1973 Budget estimate. The Ministry of Education is given an allocation of \$727 million, an increase of 15% over the 1973 Budget, while the Departments of Education of Sarawak and Sabah get an allocation of \$119 million which is \$48 million or 68%

more than the 1973 Budget provision. The substantial increase for Sarawak and Sabah is mainly due to the recent acceptance of the new Aziz salary scheme for teachers serving there, which cost \$38 million, and the take-over of Council schools by the Government in both States which cost \$7 million. Youth educational and training facilities will also be expanded and its allocation for 1974 is nearly double that of 1973.

Health is provided with an allocation of \$294 million which is \$47 million or 19% higher than in 1973. Besides maintaining existing services, this increase is required to operate the new hospitals, clinics, health centres and other medical and health institutions that are expected to be completed in 1974.

The requirements of labour and the needy will also be given more attention in 1974. The Ministry of Labour and Manpower will be allocated \$13 million to administer labour affairs while another \$13 million is provided for the Ministry of Welfare Service to look after the needs of the under-privileged of this country.

The Government also recognises the need for more housing. A provision of \$21 million has been set aside for this purpose including interest subsidies on housing loans for civil servants.

The security forces, namely, the Armed Forces and the Police, have been allocated \$887 million through their respective Ministries, i.e. the Ministries of Defence and Home Affairs. This is the equivalent of 25% of total 1974 ordinary expenditure as compared with \$815 million allocated this year.

The natural resources sector is given \$94 million, an increase of \$13 million or 16% over the 1973 Budget estimates. Agriculture, the largest item in this sector, gets \$53 million which is \$11 million or 26% more than the 1973 Budget estimate. Forestry, mining and rural development continue to get their fair shares under this year's estimates totalling \$41 million.

The commerce and communications sector is given \$212 million which is 13% or \$24 million more than the 1973 Budget allocation. The commerce and industry sector requires \$30 million to expand its efforts in promoting trade and industry while the communications sector needs \$105 million to maintain its

transport, postal and telecommunications facilities. Information and broadcasting have been allotted \$78 million in order to improve broadcasting programmes and widen their coverage.

The allocation for fixed charges is \$610 million, an increase of \$49 million or 9% over the 1973 Budget estimate. Debt servicing accounts for \$483 million which is \$45 million or 10% more than last year's Budget provision. This is mainly due to the larger amounts of loans raised in recent years to meet development expenditures. Pensions and gratuities are expected to absorb \$127 million, an increase of \$4 million or 3% over the 1973 Budget estimate.

General administration requires \$368 million which is \$65 million or 21% more than the 1973 Budget estimate because of the increased number of personnel needed in 1974 for the administrative machinery to function more effectively.

1974 Revenue at Existing Rates

Commencing from 1st January, 1974, the Federal Government's ordinary revenue will be divided into three broad categories, namely, tax revenue, non-tax revenue and revenue from the Federal Territory of Kuala Lumpur.

Ordinary budget revenue at existing rates of taxation is estimated at \$3,515 million which is \$213 million or about 6½% more than the estimated outturn for 1973. Of this amount, total tax revenue alone is estimated at \$3,056 million, an increase of \$152 million or 5% over the revised estimate for 1973. Non-tax revenue, which comes largely from commercial undertakings and miscellaneous receipts on investments, interest on loans and transfers, is estimated at \$429 million, which is \$31 million more than the revised 1973 estimate. Revenue from the Federal Territory of Kuala Lumpur is estimated at \$30 million.

Export duties are expected to yield \$244 million which is \$127 million or 34% lower than the revised estimate for 1973. This is because it is safer to assume lower prices for our export commodities next year. For planning purposes, we have estimated the export duty from rubber at \$82 million which is \$111 million less than the revised estimate for 1973. This estimate is based on an average price of 60 cents per lb. or 132 cents per kilo for R.S.S. No. 1, and a net export volume of

1.6 million metric tons. Exports of palm oil, estimated to reach 1.1 million metric tons, are expected to yield \$50 million in export duty which is \$10 million or 26% more than in 1973. Export duty on tin is estimated at \$101 million which is \$19 million or 16% less than the revised estimate for 1973.

The yield from import duties, excise and surtax is estimated at \$1,208 million, indicating an 8% increase from the previous year. Besides the expected growth in imports, this increase should also come from the anticipated expansion of manufacturing activity in the coming year.

Sales tax is envisaged to yield \$223 million, while gaming tax should net \$19 million. Income tax and supplementary income taxes are estimated to yield \$1,020 million which is \$170 million or 20% more than the 1973 revised estimate. This estimate is based on the relatively high incomes earned in 1973 as the G.N.P. is expected to grow by more than 20% at current prices.

With revenue at existing rates of taxation estimated at \$3,515 million and an ordinary Budget expenditure allocation of \$3,530 million, the Consolidated Revenue Account is expected to result in a deficit of \$15 million. After making the customary adjustments, the current account is estimated to result in a surplus of \$47 million. This surplus could be transformed into an estimated deficit of about \$28 million if we take into account the supplementary provisions that will have to be made for the payment of special relief allowances of \$75 million to lower income Federal Government employees in 1974.

Development Estimates

The appropriation for development expenditure, including \$60 million for contingencies, is \$1,894 million. Out of this allocation, a sum of \$1,434 million is expected to be actually spent, implying a shortfall of 24%. It is estimated that \$989 million or about 69% of this estimated actual expenditure will be incurred on items of direct economic significance, 17% on education and social services, 10% on security, and the remaining 4% on general administration.

The priority sectors of development expenditure allocations are those outlined in the Second Malaysia Plan. The expenditure

provisions are made in the context of the need to fulfil its basic objectives. The development of natural resources which include agriculture, forestry, mining and rural development continues to receive increasing emphasis as it is expected to provide a significant share of the additional employment and production. This sector receives an allocation of \$607 million, an increase of 31% over 1973. Agricultural diversification will be stepped up in 1974 and is given an appropriation nearly double that of 1973 while the National Livestock Development Authority is given \$12 million. Greater attention is focussed on land development in Sabah and Sarawak whereby the Land Development Board, Sabah is provided with a new provision of \$8 million while the Land Development Board, Sarawak is given \$6 million.

The industrial and communications sector continues to get a large share of the cake to maintain the level of industrial development achieved so far and to provide better communications and transport facilities. It receives an allocation of \$561 million which is 42% higher than in 1973. Perbadanan Nasional Berhad (PERNAS) will get another \$25 million while the commerce and industry section of MARA is given \$34 million which is about 7 times the amount given in 1973. The Ministry of Communications is given \$174 million which is \$68 million more than in 1973, mainly to finance civil aviation and port projects while the Malaysian International Shipping Corporation is provided with another \$23 million to enlarge its fleet.

The social services sector is given an allocation of \$286 million of which \$178 million is provided for the construction of educational institutions. Health projects will get \$63 million while the balance of \$45 million will be provided mainly for housing, labour, welfare and youth projects.

The provision for general administration comes to \$115 million of which \$50 million will take the form of loans to the State of Selangor for the development of its new capital at Shah Alam while \$44 million goes for the construction of Government office buildings.

After deducting loan repayments, total development expenditure and net lending should total \$1,402 million. With the current

account surplus projected at \$47 million, the overall deficit of the 1974 Budget is now envisaged at \$1,355 million.

Financing the 1974 Budget

This overall deficit is expected to be financed by net domestic borrowing, net foreign borrowing, special receipts and the rundown of assets. Net domestic borrowing is expected to reach \$1,145 million, of which \$1,045 million will be raised in the form of securities and \$100 million in the form of Treasury bills. Net foreign borrowing is estimated to reach \$184 million comprising market loans amounting to \$53 million and project loans of \$131 million. The remaining gap will have to be bridged by the drawdown of the Federal Government's realisable assets and the new revenue proposals which I shall present shortly.

Both inside and outside this House, I have been asked on a number of occasions in the past by members of all parties, whether the level of our debt service is too high. There is no doubt that this level has been rising steadily in recent years. In 1960, the servicing of our national debt amounted to 8.8% of ordinary expenditure. This year it constitutes 13% of ordinary expenditure and by 1974 it will absorb 13.4% of ordinary expenditure. It is, however, important to bear in mind, as I have said on previous occasions, that what is equally important is the purposes for which these loan monies have been spent. If they are spent on economic projects which are likely to increase national incomes by increasing the size of the national cake, such additional expenditure should not cause us too much concern. At the same time, we must also bear in mind that it will not be possible to go beyond a certain limit because by that time it will be very difficult to service our national debt without cutting back on essential services and this is something which we must obviously try to avoid. It is therefore important to ensure that we receive full value for every dollar spent. If we can avoid wasteful expenditure and ensure that development expenditure is devoted to genuine development projects, then I feel that we can live with this state of affairs for a little while more. At the same time, we cannot afford to be complacent and hence I have asked both the International Monetary Fund and the World Bank to send out separate teams to advise us on this matter.

Tax Changes

Having dealt with the economic position of the country and the Federal Government accounts, I now come to that part of my speech which I think Honourable Members are anxiously waiting for, namely, the tax proposals for the 1974 Budget. As usual, I should mention now that the additional revenue yield or revenue loss resulting from the tax changes proposed refer to an estimated revenue yield or loss for a full year.

DIRECT TAXES

Land Speculation Tax

As Honourable Members are aware, the recent rise in land prices, especially in certain towns and localities, has been phenomenal. The Government is very much concerned about this situation because of the obvious undesirable effects on house ownership, particularly among the lower income groups, as well as on industrial development. It is believed that one of the main factors contributing to the rise in land values is the speculative activities of those whom I might call the hit and run speculator. To curb such speculation, it is now proposed to introduce a special tax to be called the Land Speculation Tax, to be administered by the Inland Revenue Department.

The tax will be imposed on profits made on any disposal of chargeable assets on or after 6th December, 1973 which, for the purposes of this tax, are lands and buildings situated in Malaysia and any interest, option and other rights in or over land, if such disposal is made within two years after the date of acquisition of the asset, and if the amount or value of the consideration for the disposal of the asset is \$200,000 or more. Since this tax is primarily designed to curb speculation in land, it is considered that the rate should be sufficiently punitive in order to make it effective and it is therefore proposed to levy this tax at the rate of 50%.

This tax will be payable on the total amount of profits made less losses suffered in a year of assessment. I should make it clear that this new tax will not be payable on profits which are subject to income tax. It follows therefore that outgoings and expenses allowable under the Income Tax Act will not qualify for deduction in computing the profits liable to this tax.

It is recognised that it is not an unusual practice for a person to be compelled to dispose of his private residence for a variety of reasons. It is not intended that this tax shall apply to profits arising from such a situation and it is therefore proposed to exempt such profits from this tax. This exemption, however, is limited to one private residence only. As I have stated earlier, the intention of the new tax is primarily to curb speculation in land, especially by hit and run speculators. However, it is inevitable that others might also be affected and there will therefore be provisions for the remission of tax in cases where payment of such tax would cause undue hardship to the taxpayers concerned.

With regard to the position of genuine housing developers, I should explain that at present the profits of such persons constitute ordinary business income and as such are liable to ordinary income tax. They will not therefore be subject to this new tax. However, any profits made on the disposal of chargeable assets by such persons outside the ordinary course of their business of housing development will be liable to the new tax.

In order to guard against loss of revenue, it is necessary to require each party to a disposal of a chargeable asset to send a notification of the disposal to the Director General of Inland Revenue with adequate particulars to enable him to make a computation of the tax, if any, payable in respect of the disposal and to require the disposer of the asset to pay the tax, and if the tax is not paid, to require the acquirer to pay. The acquirer will then be entitled to recover from the disposer the tax he has paid.

In the case of companies liable to this tax I should also mention here that where a dividend is paid by a resident company out of profits subject to this tax, the company will not be entitled to deduct the tax from the dividend paid and the shareholders to whom the dividend is paid will not be given credit for the tax paid by the company as is the case with supplementary income taxes.

It is intended to introduce administrative provisions for the purposes of the new tax and these will be largely identical with those of the Income Tax Act.

It is estimated that the tax will yield about \$5 million of additional revenue in 1974. While this estimated revenue yield is rather modest, it must be remembered that the primary objective of introducing this tax is to curb land speculation of the kind to which I referred earlier.

Tax Relief for Earned Income for Married Women

Our income tax law at present provides for a lighter tax treatment in respect of earned income as against unearned income. By earned income is meant income from employment or pensions and income from a business in which an individual is personally engaged, while unearned income refers to investment or property income which includes interest, dividends and rents. The different tax treatment accorded to earned income is based on the consideration that earned income is derived from one's own personal efforts.

For earned income, an amount of 10% of such income subject to a maximum of \$1,000 is allowed to be deducted from the income of an individual taxpayer for tax purposes. This relief is available to a male taxpayer as well as a female taxpayer so long as she remains single. In the case of a married woman, however, the relief is limited to 9/10 of her earned income subject to a maximum of \$500.

In view of the fact that present tax policy accords a more favourable tax treatment to earned income as against unearned income, it is considered equitable that a woman taxpayer should not be deprived of the additional relief beyond the \$500 on marriage. It is therefore proposed that for a married woman having an annual earned income of \$5,000 and above, the amount of relief is to be 10% of the income subject to a maximum of \$1,000. In cases where the earned income is less than \$5,000, the existing 9/10 up to a maximum of \$500 will apply. To change this basis to the 10% basis will deprive her of an existing benefit.

The change which I have just mentioned will take effect from year of assessment 1974. It is estimated that the loss of revenue from this change is about \$2 million.

Income Tax Relief for Incapacitated Children

At present a taxpayer can claim certain amounts of tax relief as specified in the law in respect of unmarried children maintained by him up to a maximum number of five children. To qualify for this relief the children must be under 16 years of age. There is also a provision in the law for a taxpayer to claim an allowable deduction for an unmarried child who is over 16 years of age if the child is receiving full-time education at educational institutions or serving under articles or indentures with a view to qualifying for a trade or profession. Thus, on the basis of the present limitation, a taxpayer cannot claim relief for an unmarried child who is over 16 years old but is not receiving full-time education because he or she is physically or mentally incapacitated. It is now proposed to provide some tax relief for the taxpayer for the maintenance of such a child provided the latter does not have income which exceeds the amount of the new relief to be given. The amount proposed is \$300 per incapacitated child, and it is not proposed to limit the number of such children eligible for this relief.

The estimated revenue loss from this concession is about \$200,000. This change will take effect from year of assessment 1974.

Income Tax Relief for Small Scale Businesses on Joint Stock Company Basis

It is recognised that small scale businesses also play an important role in the development of our economy. It is the Government's intention to encourage the growth of these small scale businesses. To afford them some assistance it is proposed to allow all incorporation expenses as an allowable deduction for income tax purposes as from year of assessment 1974. This relief is to be made available to companies incorporated with an authorised capital not exceeding \$250,000. The revenue loss is estimated at about \$500,000.

Stamp Duty

To encourage the development of a capital and money market in the country it is proposed to change the present *ad valorem* rates of stamp duty on bills of

exchange, promissory notes and assignments for factoring as well as discounting transactions, provided that these instruments are executed by or through approved banks, merchant banks and borrowing companies.

At present the rate of stamp duty on bills of exchange is 5 cents for every \$100. It is now proposed to change this duty to a specific rate of \$5. In the case of promissory notes, at present they are liable to stamp duty at the rate of 20 cents for every \$100. It is now proposed to change it to a specific rate of \$5.

Similarly, the present *ad valorem* rates of stamp duty on the assignment of book debts or receivables where such transaction is carried out under a master agreement for discounting or factoring are to be changed to a specific rate of \$5. At present instruments for factoring are subject to stamp duty at the rate of 1% if the value does not exceed \$100,000 and 2% thereafter. In the case of invoice discounting, such transactions at present attract stamp duty at the rate of \$2 on the first \$1,000 and \$2.50 for each additional \$500 or part thereof.

The estimated revenue loss from these changes is about \$900,000.

INDIRECT TAXES

As Hon'ble Members are aware, the Government recently announced a number of measures that it would take in order to combat rising prices. These measures, among other things, include reduction of tariffs on certain essential items. Going further, it is proposed to reduce, and in some cases even abolish, import and excise duties on a wide range of items which I will mention in a moment. Hon'ble Members will be able to see the full details of these changes in the Customs Duties Orders, copies of which will be distributed in a little while.

Import Duties

The present duty of 30 cents per lb applicable to fresh meat and edible offal falling under tariff heading Nos. 02.01.500, 02.01.920, 02.04.900 and 02.05.900 will be removed. The duty of 30 cents per lb on poultry will however continue to apply in order to protect our poultry industry. Salted, dried or smoked meat and edible meat offal falling under main tariff heading 02.06 are at

present liable to 50 cents per lb of import duty. This duty will be removed. Similarly, the import duties on potatoes, onions, garlic, now dutiable at \$10 per ton, unroasted coffee dutiable at \$336 per ton, coffee and coffee substitutes dutiable at 20 cents per lb, prepared or preserved fish falling under main tariff heading 16.04, commonly called sardines, dutiable at the rate of 20%, will be removed.

Import duties on the following food items are to be reduced. Meat or meat offal under tariff heading Nos. 16.02.110 which are now liable to import duty at the rate of 35% is to be reduced to 20%; prepared or preserved vegetables and fruits are to be dutiable at the rate of 20% instead of 40%, except those under tariff heading Nos. 20.02.200 where the duty will be 25%.

I now come to non-food items. Nitrogenous mineral or chemical fertilizers falling under tariff heading No. 31.02.990 are to be liable to a reduced import duty of \$42.50 per ton instead of the present \$50. Import duties on fertilizers not exceeding 10 kilograms falling under tariff heading Nos. 31.05.120, 31.05.190 and 31.05.990 are to be reduced from \$60 to \$45 per ton. Unglazed tiles now subject to import duty at the rate of 25% or \$89.60 per ton, whichever is the higher, will henceforth be dutiable at the lower rate of 20% or \$72 per ton, whichever is the higher. The import duties of \$50 per ton on spiegeleisen iron, ingots of iron or steel and blooms, billets and similar items are to be abolished. Similarly, bars and rods of iron or steel and similar items now dutiable at the rate of \$100 per ton will no longer attract any import duty.

Altogether 33 items will no longer attract any import duties and 9 items will have their import duties reduced. These measures will cost the Government about \$6.4 million of lost revenue.

Harmonization of Import Duties

The present rate of import duty on scented joss paper in Sabah and Sarawak is 10%. It is proposed to harmonize this rate with the rates prevailing in Peninsular Malaysia, i.e. 25% or 20 cents per lb., whichever is the higher, both full and preferential. The revenue implications of this change are insignificant and it is proposed merely for the sake of administrative convenience. In any case, this is in line with our policy of harmonizing the

tariff structure of Peninsular Malaysia on the one hand and Sarawak and Sabah on the other.

At the request of the Sarawak State Government, it is proposed to increase the import duty on petrol from the existing rate of 90 cents to \$1.20 per gallon and on lubricating oil from 65 cents to \$1.05 per gallon. The additional revenue yield expected from this duty increase is about \$3.4 million. In accordance with present Constitutional arrangements, this revenue will be assigned to the Sarawak Government.

Excise Duties

It is proposed to abolish excise duties on a number of items. These items are full cream powdered milk now excisable at the rate of 1 cent per lb., lacquers, cellulose varnishes, now excisable at 50 cents per gallon; water-paints and distempers, pigments and colouring materials now subject to excise duty at the rate of 3 cents per lb. and all other types of paints now excisable at the rate of 50 cents per gallon. All these items will henceforth be free of excise duties. The estimated loss of revenue from the removal of these excise duties is about \$1.5 million.

Export Duties

Hon'ble Members will recall that the export duty on saw logs was increased from 10% to 15% in the 1972 Budget in order to encourage more domestic processing of timber. In the light of experience gained in the last two years it has been found that this measure is not as effective as we want it to be and for this reason a further measure is found to be necessary. It is now proposed to impose export duty also on sawn timber at the rate of 5% in Peninsular Malaysia. The expected additional revenue from this new duty is estimated to be about \$15 million.

As I have mentioned in the early part of my speech, our country is now experiencing a boom in the construction industry which is an important component in the growth of our G.N.P. It is vital that we should ensure that supplies of building materials for our domestic needs should not only be adequately met but also less costly. For some of these materials we have to depend on foreign supplies and various measures have been taken from time to time in the recent past to liberalize import restrictions on building

materials. I have a few moments ago also proposed the reduction or abolition of import and excise duties on certain building materials in order to achieve this objective. However, many of these materials are domestically produced and a sizeable amount of them are exported. It is therefore important that exports of these materials should be discouraged so that more will be available for our own requirements. With this in view it is now proposed to levy export duties at the rate of 5% on the items specified in Customs Duties Order, copies of which will be circulated to Hon'ble Members shortly. In brief, these are veneer sheets, plywood, cement and cement clinker, worked monumental and building stones, worked slates, asphalt articles, panels, boards and similar articles of vegetable fibre, building materials of corrugated sheets, pipes and other articles of asbestos cement, glazed and unglazed tiles, building bricks, bars and rods of iron or steel.

It is also proposed to levy an export duty at the rate of 5% on live animals for food, fresh and freshly preserved fish, birds' eggs, animal feeding stuffs and fresh fruits excluding bananas and pineapples. However, live poultry under main tariff heading No. 01.05 will be exempted from this duty. In the case of pineapples, there is already an export prohibition on this fruit.

This new levy of export duties is estimated to bring about \$11.2 million of additional revenue.

Iron ore mining in this country has been on the decline in the past few years. A number of these mines have already closed. In 1969, the amount of revenue collected from the export duty on iron ore was \$14 million and for 1972 it dropped to only \$1.5 million. The revised estimate for 1973 is only \$300,000. It is proposed to provide some assistance to this declining industry by reducing the burden of export duty on iron ore. Under the present financial arrangement, two-thirds of the revenue from the export duty on iron ore are assigned to the States where the iron ore is mined and only one-third goes to Federal revenue. In view of this it is now proposed to reduce the rate of export duty by 5% from 15% to 10% only. The loss of revenue to the Federal Government is estimated to be about \$100,000.

The proposed tax changes are expected to yield about \$23 million of net additional

revenue, of which about \$3.4 million from the increased import duties on petrol and lubricating oil will be assigned to the Sarawak State Government.

Overall Deficit

With the additional revenue of \$19.6 million expected from the tax changes mentioned earlier, a current account surplus of \$67 million is anticipated. Taking into account development expenditure and net lending of \$1,402 million, the overall deficit would, therefore, be \$1,335 million. The comparable figure for 1973 is expected to amount to \$1,246 million.

Economic Outlook for 1974

The oil crisis has made it very difficult for anyone to forecast world economic trends with any degree of certainty for 1974. Although world capitals are still in the process of taking stock of the tremendous impact of the oil crisis, it is clear that 1974 will be a year of slower growth and continued inflation for the industrial countries. The Malaysian economy is also expected to reduce its rate of expansion but is still expected to sustain a high rate of growth of about 7% at constant prices.

The industrial economies having experienced boom conditions were expected even before the oil crisis to slow down. However, this declaration in economic growth will now be accentuated by a decline in output growth and rising costs of production.

The imports of O.E.C.D. countries from non-members are consequently expected to increase at a slower rate of about 10% next year, compared to an expansion of 16% in real terms this year. Although this slow down in O.E.C.D. imports will reduce foreign demand for our exports, the impact is expected to be less than usual because our export prices for rubber and tin are expected to continue at high levels. The oil crisis will encourage the switch from increasingly costly synthetic rubber and plastics to natural rubber which, with tin, should enable our economic growth to be sustained at a high level.

The private sector is expected to lead in the economic expansion of next year. This is understandable in the light of past experience when private sector investment and consumption increased after an economic boom. Thus

private investment should grow by 15% at current prices and 8% at constant prices as compared to only 5% real growth this year.

Similarly, private consumption is expected to increase further in 1974 by 9% at current prices because of the spill over of the incomes earned this year and the continuing expansion in incomes next year. It is likely that the rate of price increases would be dampened somewhat next year in view of an anticipated decline in aggregate demand and the possible improvement of food supplies. For this reason although private consumption growth at current prices is expected to decline from 14% this year to 9% next year, private consumption expansion at constant prices would decline only very slightly from 6.9% this year to 6.6% next year.

In short, while the outlook for the industrial countries for 1974 is uncertain, our own economy despite these discouraging prospects abroad, is expected to sustain a high level of economic growth with some slow down in price increases. As I have stated earlier, however, there is one cloud on the horizon, and that is the problem of inflation which is now our No. 1 economic problem. We shall leave no stone unturned to combat it as our financial and economic stability depends on our ability to contain it within manageable limits. Either we do this or we may well find the fruits of 16 years of impressive economic growth wiped away. On this sombre note I will end but I feel that it is far better to face reality squarely, though I am convinced that if we have the political will and courage to do what is right, we would still be able to make steady progress towards the goals which we have set for ourselves.

Sir, I beg to move.

Menteri Perpaduan Negara (Tun V.T. Sambanthan): Tuan Yang di-Pertua, saya mohon menyokong.

USUL

ANGGARAN PEMBANGUNAN, 1974

Tun Tan Siew Sin: Tuan Yang di-Pertua, saya mohon mencadangkan bahawa usul di atas nama saya berkenaan Anggaran Perbelanjaan Pembangunan, 1974, dalam Aturan

Urusan Mesyuarat ini diserahkan kepada Jawatankuasa sebuah-buah Majlis yang berbunyi:

Bahawa Dewan ini membuat ketetapan iaitu satu jumlah wang sebanyak tidak lebih daripada \$1,894,423,905 dibelanjakan daripada Kumpulanwang Pembangunan bagi tahun 1974, dan bagi maksud kepala dan pecahan-pecahan kepala perbelanjaan pembangunan yang dinyatakan di bawah Kepala Pembangunan atau "(P)" dalam senarai Belanjawan Persekutuan bagi tahun 1974 yang dibentangkan sebagai Kertas Perintah 32 tahun 1973, adalah diuntukkan di bawah kepala-kepala yang berkenaan jumlah-jumlah yang setentang dengan pecahan-pecahan kepala itu di ruangan 6 dan 7 senarai tersebut.

Tun V. T. Sambanthan: Tuan Yang di-Pertua, saya mohon menyokong.

Tuan Yang di-Pertua: Ahli-ahli Yang Berhormat sekalian, saya isytiharkan mengikut Peraturan Mesyuarat 100, saya membenarkan supaya ke semua ucapan Yang Berhormat Menteri Kewangan yang terkandung dalam naskhah ucapannya yang diedarkan kepada Ahli-ahli Yang Berhormat sekalian dimasukkan ke dalam Lapuran Rasmi (Hansard).

Mesyuarat ini ditangguhkan sehingga pukul 2.30 petang esok.

Dewan ditangguhkan pada pukul 4.25 petang.